

# JOURNAL OF INTERNATIONAL BUSINESS AND ENTREPRENEURSHIP

*Special Issue on*  
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# **JOURNAL OF INTERNATIONAL BUSINESS AND ENTREPRENEURSHIP**

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## PREFACE

Dr. George O. Tasie  
Guest Editor

*Special Issue on "Contemporary Issues in International Business  
and Entrepreneurship"*

Previously technology, globalisation, and trade liberalisation did not play a dominant role in business environments, but today the approach is totally different. The millennium is characterised by globalised trading system and the predominance of the revolutionary information technologies. This scenario is where the real challenge is for the entrepreneuristic persons and organisations, raising the issue of how entrepreneurs and business organisations respond to the demands of the globalised markets and the fierce competition of business organisation in the so-called "borderless world".

The papers in this special volume of Journal of Business and Entrepreneurship (JIBE) explain some of these challenges by providing in-depth and analytical information on various topics of international business interests. For instance, the article on service quality demonstrates the extent in which customer satisfaction and expectations have become a popular area of academic attention and economic development of society. Other articles also draw on the importance of internationalisation of businesses, such as global marketing, organisational reputation, Swedish entrepreneurship, the impact of currency in business and scores of other thought-provoking research papers.

The articles chosen for this special issue represent and reflect the crucial challenges facing international business and management during the past and present economic crises. Although the current worldwide economic crisis has eased and most of the countries affected are on the way to recovery, we have to recognise the factors contributing to the crisis.

It is hoped that this volume will contribute towards creating an awareness of the need for better business practices and excellent management ideas across the world. I am optimistic that wider readers will benefit largely through reading this particular issue.

Above all, I must record my thanks and profound appreciation to the contributors of articles to this issue, and especially Professor Zafar U. Ahmed for affording me an opportunity to guest edit this special issue. Finally, I wish to thank the JIBE's Editorial Board and the reviewers for the job well done. Without their invaluable contribution, the publication of this special issue would not have been possible.

## **PROFILE OF GUEST EDITOR**

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George O. Tasie, Ph.D (Manchester), M.Sc (Leicester), M.P.A; B.Sc (Hon) (Liverpool), M.M.S (London), is Head, Department of Management Studies at the University of Brunei Darassulam [UBD], Brunei. His teaching interests are in general management, human resource management, human resource development, organisational behaviour, and international management. His professional work and experience in academia has taken him to the U.S.A, the United Kingdom, Malaysia, Australia, Singapore, the Philippines, Indonesia, Brunei, Vietnam and Nigeria. The publication of one of his books on "Public Sector Administration and Management" was sponsored by the University of Malaysia Sarawak, where he was an associate professor before joining UBD. He has contributed articles to other internationally accredited journals. Dr. Tasie has also written and published books on rural financial planning and management. He has been involved in short courses and consultancy works for a variety of organisations in the U.S.A, U.K, Singapore, Nigeria, Malaysia, Brunei and JASPOC (Joint ASEAN Senior Officers' Course). His current research interests center on business-government relations, training and development and stress management in Southeast Asia.



## **THE PROCESS OF FIRM ESTABLISHMENT IN LESS DEVELOPED AND LOOSELY STRUCTURED MARKETS: A CASE STUDY OF TWO SWEDISH FIRMS IN KENYA**

Desalegn Abraha  
Syeda-Masooda Mukhtar

### **Abstract**

While much attention has been paid to the study of establishment processes of MNCs within developed countries, researchers have largely ignored the developing country perspective. As a result, understanding of such processes within the developing country context remains relatively limited. Against this background, this paper endeavors to explore the salient features of the establishment processes of two Swedish firms, SKF and Alfa-Laval, in Kenya using the network approach. In view of its findings, the paper concludes with specific policy measures for both MNCs and governments of developing countries

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## INTRODUCTION

Johanson & Associates (1994) define the establishment process as developing relationships that are new to the establishing firm and to other actors with which it interacts in the new market. They argue that such relationships can be cultivated in one of two ways. The establishing firm either creates additional relationships on top of the developed relationships that exist already, or it interrupts these existing relationships and develops new ones instead. Such initiatives to facilitate the process of establishment are not necessarily exclusive to international firms themselves. The customer (or another third party) could also facilitate such a process. Evidence shows that establishment processes are affected by the structure of the market, the network, the product type, and the broader context within which the market functions, the general operating environment (Abraha 1994)<sup>1</sup>.

Studies of the establishment processes have focused on markets in developed countries i.e., markets which operate in relatively structured manner<sup>2</sup>. A few studies that have attempted to study these processes within the less developed and less structured markets (e.g. Abraha 1994), suggest that there are significant differences between the structured developed markets and the loosely structured and less developed markets. In other words, the two markets cannot be treated as homogeneous and the lessons from developed markets cannot be applied to less developed markets without making the appropriate adjustments.

Against this background, this paper addresses the establishment processes of two Swedish firms in Kenys, SKF and Alfa-Laval, operating in the mineral and machinery industry respectively. The objective of our study is to gain an understanding of the process of establishment and to develop a generic model that could be adapted to, and applied within different contexts.

## RESEARCH METHODOLOGY

This research adapts the case study methodology for two reasons. First, to study the establishment process in its entirety, it is critical to analyze all of its individual components in detail. Such detailed information could only be yielded through the identification and definition of all significant events during the lifetime of the establishment process.

Second, the study of the establishment process within a network context necessitates chronological documentation of such historical events. The case study method is the most appropriate approach to document such chronology.

The data was gathered through personal interviews with managers within the two companies. The managers represented different levels of seniority, but all had worked within their respective organizations for several years. The latter ensured that the stated purpose of this study was met in terms of gathering a historical perspective. The interviews were recorded with the permission from the respondents. In instances where personal interviews could not be conducted with personnel who had initiated the establishment process but had since moved on, information gaps were filled through other sources. However, the impact of this is considered negligible on the validity and the reliability of findings from this study. To ensure the accuracy of the recorded interviews and to gather additional information, the recordings were played back to the interviewees. In order to eliminate any bias and as a means of cross checking the information provided, managers at the Head Office, who were responsible for the East African market overall and the Kenyan market specifically, were also interviewed.

## **LITERATURE REVIEW**

### **Frame of Reference**

To set the context for this study, it is necessary to present a brief overview of different approaches applied to the study of foreign market establishments<sup>3</sup>. The direct investment theory, which is based on internationalization theory (e.g. Vernon, 1966; Kindleberger, 1969; Hymer, 1976; Dunning, 1980; Doz, 1986; Porter, 1986; Hennart, 1982), postulates that the establishment process in foreign markets is the result of strategic planning on part of managers, and its execution is necessarily the task of a single actor, i.e., the establishing firm itself. It is the firm, which establishes itself in a foreign market, as dictated by its strategic vision, set by top management. This vision encompasses issues such as, deciding whether or not to enter foreign markets, which markets to enter, which form of establishment to choose, how to organize the foreign operations, and the nature of the marketing plan (Walsh, 1993). According to this theory, only the foreign

firm entering the market is the active actor in the establishment process while any other firm[s] that it deals with are considered passive. This theory assumes that the entering firm is self-contained, has all the resources it needs at its disposal and makes independent decisions on how these resources should be allocated within various markets and activities. Other researchers describe foreign market entry in similar fashion (e.g., Kotler, 1997; Czinkota & Ronkainen, 1998; Bradley<sup>4</sup>, 1995, Walsh, 1993).

According to the direct investment theory, the establishment process has to be planned in advance where the elements of the plans are adhered to strictly and are implemented carefully in order to ensure its success. The planning stage is given an equal, if not more weightage as the implementation stage. The collaboration with other firms is ignored altogether. These considerations imply that the entire establishment process rests upon top management of the entering firm.

In contrast, the network approach (Blankenburg 1997) considers and defines market establishments as a process of development facilitated through interactions among the various actors operating within the network in question<sup>5</sup>. This approach does not place as great an emphasis on the role of planning, as does the direct investment theory. Emphasis is placed instead on the identification and management of crucial events and happenings, which are influenced by cooperation and collaboration with other actors in the market. Critical to the success of the entering firms is the identification of the crucial events, opportunities, and constraints as well as developing appropriate mechanisms to utilize and harness their benefits. The network approach, does not regard the establishment process the duty of the entering firm alone. It views this process as part of collaboration with other firms operating within the same market with which the entering firm exchanges its resources. This implies that the role of top management of the entering firm is minimized in the process of establishment as duties, authorities and responsibilities have to be shared through cooperation and complementarity with the other actors or firms. It is worth noting that the influence of one company on another within an industrial network cannot be ignored. According to Ford (ed:) (1997), interdependence of suppliers and customers is a feature of many concentrated industrial markets. In such circumstances, marketing and purchasing can be constructed as an exchange process leading to the adaptive behavior of both firms. This is achieved through the mechanisms of organizational interaction. Johanson and

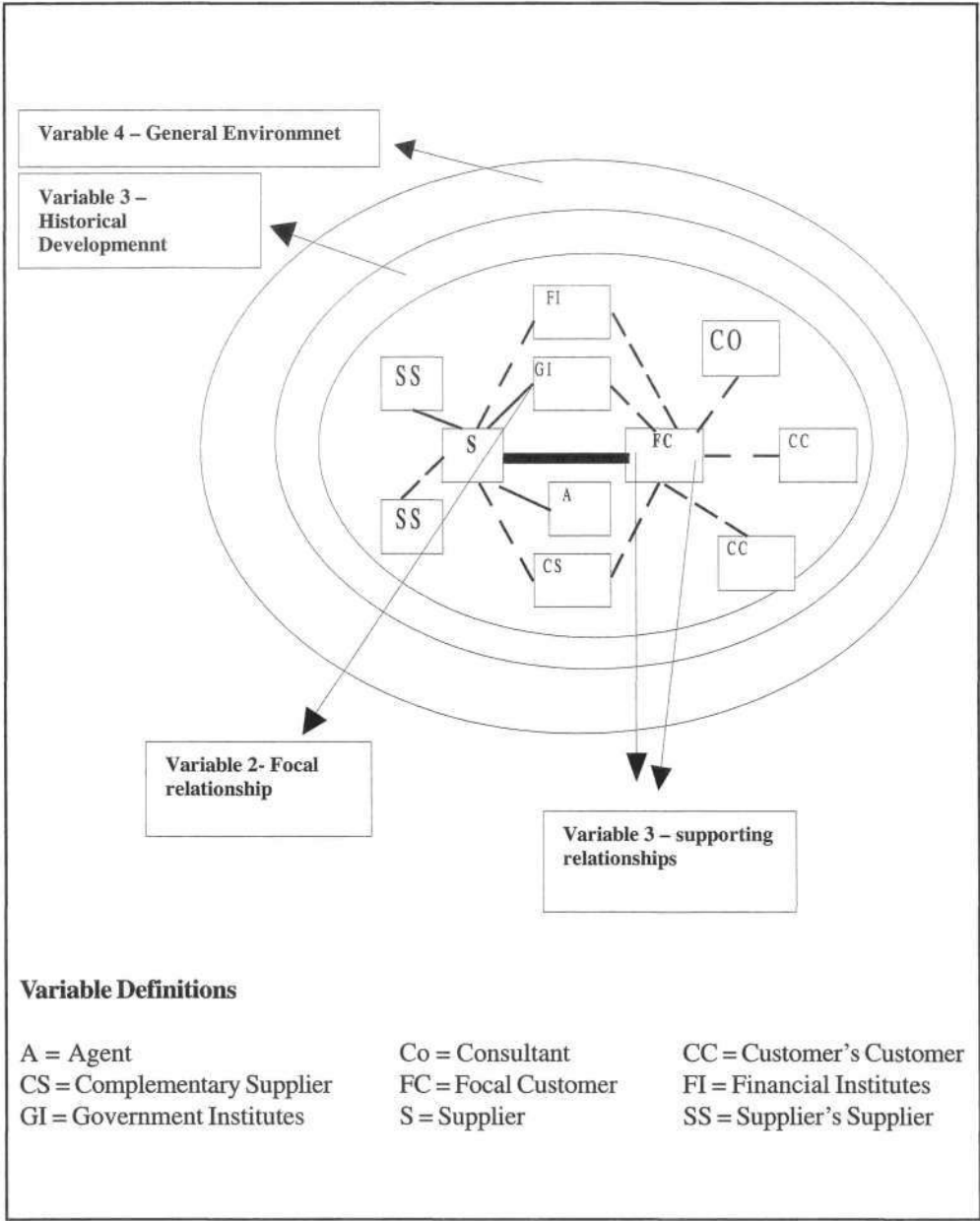
Mattsson (1988) postulate that, industrial networks are composed of actors engaged in distribution, production and the use and consumption of goods and services. This system is described as a network of relationships between the firms. Different actors perform different roles in the network, which shows the interdependence of firms on each other, requiring the need of coordinating their activities. Coordination is not brought about through the price mechanism as in the traditional market model, nor does it take place through a central plan or an organizational hierarchy. It is through the interaction between firms in the network, where price is just one of several influencing conditions that coordination occurs.

The network approach relevant to this particular study is the theory of marketing within an industrial network context, popularly known as the network approach. It is developed and applied in different contexts by Hägg and Johanson (1982), Hammarkvist et al. (1982), Johanson and Mattsson (1988), Håkansson (1987, 1989) and Håkansson and Snehota (1995). According to these authors, networks in the industrial context are composed of connected exchange relationships among industrial actors. These actors possess different industrial resources, which play a role of varying degree of importance within the exchange process depending on the value placed upon them<sup>6</sup>. However, this theory is too broad and somewhat inapplicable to less structured and less developed market in its present form. As a result, a model which is presented in Figure 1 is developed with some modifications and adjustments to the network theory in order to study the Swedish manufacturing firms' establishments in Kenya.

The model (Figure 1) defines the establishment process as a four stage (or four variable) process. The first variable, the historical development of the establishment process, focuses on the actors, which were involved in initiating the establishment process itself, influenced its course of direction as well as resource allocation within the local market. It was in view of the availability of, and the access to these resources, actors, and industrial activities, a judgment was made on part of the establishing firm whether there existed a potential network in the local market.

The second variable, the focal relationship(s), relates to the focal customer relationships and assesses these relationships in terms of their stability and strength. It also identifies resources that are exchanged between the establishing firm and its main customer.

Figure 1 : The Model of Establishment Processes



The third variable, supporting relationships, addresses relationships that allow the focal relationship(s) to function properly. The fourth variable deals with the general or the macro-environment within which the process of establishment takes place. This considers issues such as the availability of qualified manpower, financial institutions, government rules, regulations and policies, political factors, infrastructure conditions and culture.

## **THE CASE OF ALFA-LAVAL**

### ***The Initial Phase***

Since the end of the Second World War through 1970, Alfa-Laval had been exporting its machinery directly to its customers in Kenya. In 1974, it appointed a Swedish who was also representing other Swedish firms at the time such as Tetra Pak and Sandvik in Kenya. The underlying assumption on part of Alfa-Laval was that operating through an agent would place it in a much stronger position in the market compared to its existing policy of exporting directly. The agent imported both finished products (95%) manufactured by Alfa-Laval as well as components (5%), which were then assembled in Kenya. The main customers for these components were farmers who bought milking machines, which Alfa-Laval was assembling in the local market. While, the main customers for the finished products were the Breweries, the Kenyan Cooperative Creameries (KCC), the East African Industries (EAI) and, some other Industrial customers. Alfa Laval dominated the market with 100% market share and faced no competitors.

In terms of the logistics, the agent would visit Alfa-Laval customers to give advice and deal with their needs of the after-sales services. A Kenyan engineer, who had been educated in Sweden, supported the agent's after-sales services. The engineer was not only responsible for the assembly of the imported components but together with another Swedish technical expert was employed to promote Alfa-Laval's products to secure orders for the agent. As the agent did not have the necessary facilities, the engineers were assembling the Alfa-Laval components for the customers in their own compounds. If a technical problem beyond his capacity arose, the agent would report it directly to the head office in Sweden.



The agent was well known across Kenya and had built a very strong relationship and reputation with Alfa-Laval's customers. Being the permanent representative of many other Scandinavian countries in Kenya, the agent developed strong relationships with various big companies. He was technically competent, was a good negotiator, was good in instructing the customers and helping them solve their problems. He had sufficient marketing resources, and had capable and well educated service people at his disposal, who were trained regularly in Alfa-Laval's head office in Sweden. These trainees, together with their customers, also participated in international exhibitions.

### ***Transition to the Fully Owned Subsidiary***

The transition in Alfa-Laval happened at the end of 1980 following the termination of the agency contract with APH. Alfa-Laval bought the agency. The change did not appear to have any negative impact on Alfa-Laval's customer relationships. In fact these were strengthened and profit rose following the establishment of the wholly owned subsidiary after a year or so of separation from APH. The reasons were several. First, a wholly owned subsidiary could fight off competition from a newly established Danish company in Kenya. The Danish firm had started to sell its products at a very low price to gain a larger market share. However, this larger share was at the expense of Alfa-Laval. Second, Alfa-Laval believed that the new set up would improve its competitive edge. Third, the company assumed that the wholly owned subsidiary could handle customer relations in a different, better and at a more personal level.

The Danish competitor had additional advantages over Alfa-Laval. The Danish government had offered the Kenyan government preferential credit terms (such as longer payment period and debtor days) for those importers who bought Danish goods. As a result it became easier for Alfa-Laval's large customers such as KCC to buy Danish products instead. This had a negative impact on Alfa Laval's operations' and its market share started to fall. Alfa-Laval's prices were higher than its competitors, but its products were of a higher quality and the company enjoyed loyal customer following despite these higher prices. It was envisaged that following the establishment of the wholly owned subsidiary, Alfa-Laval could manage a better sales operation, compete on price and even win back the customers it had lost to the Danish firm. The price cut could be possible because the company had technologically advanced products



and the local office did not add any commission on the prices of these. The local office could make good any loss from a buoyant secondary spare parts market.

### *Transition to the Wholly Owned Company*

The wholly owned subsidiary carried more or less the same product lines as the agency, but marketed them in a much more aggressive manner especially to the farming community in Kenya. There were several reasons for this. First, the farmers had their own technical expert, who was eventually hired out to Alfa-Laval when it set up the subsidiary. Second, this expert had a particular competence in milking machines and the market for milking machines happened to be on the rise at the time. This timely coincidence helped Alfa-Laval tremendously to expand this market segment.

The subsidiary supplied finished products and components, each constituting 50% of the Alfa-Laval's market share, as was the case with its predecessor, the agency (APH). In line with the company's aggressive and newfound commitment to marketing, a local sales office was set up. Sales soared as a result. In addition, the personal contact helped Alfa-Laval to improve and strengthen its relationships with its customers. Alfa-Laval's main customers were still the Breweries, KCC, EAI, and some other industrial customers and farmers. The first two being the largest customers for the company's finished products.

A Kenyan technical expert, (who had his basic education in the Kenyan Polytechnic Institute), supported by a technical service engineer offered the after-sales services, such as spare parts, technical know-how and the assembly of components imported from Sweden.

The Kenyan market for agri-business is volatile due to climatic uncertainties. The sales of milking equipment are directly related to the expected level of milk production, which in turn, is affected by weather conditions. During drought, the farmers would not invest in milking machines and other spare parts, as was the case in 1974 and 1984. This resulted in sales volume decline of agriculture related machinery for Alfa-Laval, while the market share of the industrial equipment and machinery remained relatively constant.

Alfa-Laval's three main competitors are: Gascoine, APV, (both sell products like separators), and the Danish firm which competes' in the milk and milk by-products market. Overall, the company has a significantly higher market share than its competitors. This market share is maintained despite the fact that Alfa-Laval's products are more expensive. This is partly because the firm has been operating in the Kenyan market for a longer time, and partly due to its technical competence, the 'perceived' higher quality of its products, marketing and service delivery.

### ***The Focal Customers***

Alfa-Laval's key customer groups in the components sector constitutes the farmers. While, EAI is the main customer in the finished products sector. The breweries and KCC have been Alfa-Laval's biggest customers within the food industry since the beginning of its operations in Kenya. Without these customers, and especially without KCC (due to its monopolistic position), Alfa Laval's operations in Kenya would have been nominal at best. The relationship with KCC can, therefore, be defined as a focal relationship.

KCC, with the help from the Kenyan government, has monopolized the production and the distribution of pasteurized and sterilized milk in Kenya. The government's restrictive licensing laws against new entrants have ensured KCC's continuation as a monopoly over the years. Alfa-Laval supplies finished products, components and process equipment to KCC. In addition it provides service in the form of training, technical support as well as technical specification and information about its products. Taking these exchanges into consideration, it can be argued that it is Alfa-Laval that offers most of the resources in this relationship, making the relationship asymmetrical.

In terms of other actors, Alfa-Laval deals with several governmental institutions. Prominent among these are the Kenyan Ministry of Commerce and Industry, which grants import licenses, the Kenyan Ministry of Finance which controls prices, and the Central Bank of Kenya which allocates hard currency.

### ***Availability and Exchange of Resources***

The agent's (APH) main task was sales. It basically sold milking machines to farmers,

and process equipment to the industry, which includes dairy industries and breweries. It was not involved with technical support. Training was organized in informal meetings with the technicians, specialists and customers, where Alfa Laval demonstrated the functionality of its equipment and components. In case of special training needs on part of the customer, visits were organized with experts to the head office in Sweden.

On the whole, the products sold to the industry are standardized with limited scope for modification. These products are technically advanced requiring back up support from the head office, while the process equipment sold to the food industry are relatively unsophisticated demanding little back up. Given the limited technical competence of Kenyan customers, Alfa-Laval encourages customers towards the purchase of the less sophisticated products. Training provision is on a need basis and/or in cases where big plants are bought. KCC and the Breweries have their own technical personnel trained by the Alfa Laval. Within the Agri sector, two technicians who are responsible for the services and maintenance support this service. Both within the industrial and the agricultural sector, it is Alfa Laval, which supplies most of the resources, making the relationship relatively asymmetrical.

The social relationships and exchanges between Alfa Laval and other actors are well developed. There are regular interactions with customers and suppliers, as well as with other Swedish firms operating in Kenya, especially Tetra Pak with which the Alfa Laval also exchanges customers and/or projects at times.

### ***Adaptations***

Alfa-Laval has tried to adapt its products to the local needs often in consultation with its customers. The firm also tries to adapt to its customers' financial needs offering flexible credit and payment terms. Major customers, with an established relationship with Alfa Laval, can also receive discounts.

Alfa-Laval holds a stock of spare parts in its stores serving the agri sector. However, such provision is not always possible within the industrial sector as most products in this sector are manufactured to order. In an attempt to overcome any potential delays, the firm encourages customers to schedule and communicate their supply needs in advance. Such planning is coordinated and executed from the head office.

### ***The Supporting Relationships***

The firm's imports, in the main, with little need for local supplies. If the local suppliers are used, they are paid in cash. The firm works with two banks for any international transactions. The head office acts as the main financier in the event of major purchases such as big plants. It also sends experts to Kenya and aims to cultivate and nurture relationships with government institutions such as the Kenyan Ministry of Commerce and Industry, which grants import licenses, and the Kenyan Central Bank, which grants funds for the allocation of foreign currency.

During the agency period, such head office support was not needed as the agent visited all the customers, gave advice, offered service and negotiated sales. He had competent and well-educated service engineers at his disposal, while the technical experts, offered after sales service with spare parts, technical know-how and preparations.

### ***The General Environment***

The key barriers faced by Alfa Laval are a shortage of qualified manpower and foreign currency. The political volatility in Kenya also impacts on the general environment within which Alfa-Laval operates. In 1987, for example, due to a political misunderstanding between the Kenyan and the Swedish governments, all existing licenses were canceled while there were serious delays in the issuing of new ones. The 'official' explanation on part of the Kenyan government was that there were no funds available. However, the problem was eventually resolved.

As a firm that is fully owned by a foreign company, Alfa-Laval cannot get credit from the local financial institutions and has to be funded by its Swedish head office. Such limitations further complicate the establishment process and can be exploited by the competitors. For example, when the Danish International Development Agency (DANIDA) financed a dairy plant, it was on the condition that a Danish supplier would be appointed. In general, the attitude towards foreign firms in Kenya is positive, and most have a good relationship with the government.

## THE CASE OF SKF

### *The Initial Phase*

SKF started its operations in Kenya in 1973. The decision was taken by the company's head office in Sweden, which appointed an agent by the name of Gelian Roberts (GR) to be its representative in Kenya. For the first three years, SKF supplied several versions of ball bearings to the market. Although, ball bearings remain its main product (98 % of the total sales), SKF added another product<sup>7</sup>, on its list following the acquisition of Domer in 1976. The agency contract with GR was terminated in 1983 with mutual consent. The reasoning behind this decision was SKF's concern over the lack of growth in sales and low market share.

### *The Fully Owned Sales Office*

GR was replaced by SKF sales office in Nairobi, Kenya. This office answered directly to its head office in Brussels, which also administered the company's Middle Eastern operations. All products, namely ball bearings, were imported. SKF did not, and does not to this day, manufacture anything locally.

In 1982, SKF appointed a new Managing Director, David Roberts. Following his discussions with his engineers, Roberts came to the conclusion that the company suffered from a number of shortcomings. The technical support on offer to its customers was poor. The knowledge base and competence in problem identification and resolution were unsatisfactory, as was product quality and defects detection. Following an extensive review, Roberts decided that the whole technical support process needed overhauling and in view of his findings, the technical service program for the Kenyan customers was put into place. The first seminar under this program was held in 1986 for SKF employees with a view to upgrading their technical knowledge and service competency. Around 100 engineers and customers attended the seminar.

Robert's decision to invest in the competence development of SKF technical staff yielded tangible benefits. SKF is now one of the leading firms in the import and distribution of ball bearings in Kenya. Its sales rose from 12.9 million Kenyan Shillings in 1983 to 29 million Shillings in 1987 and 33 million Kenyan Shillings the year later. Most of the

sales remain Nairobi based. It now has a competent sales operation and excels in the provision of service and technical support to its customers.

SKF faces tough competition from around thirty operators who deal in the ball bearings market. SKF's biggest competitors comprise five Japanese firms with about 30% of the total market share followed by FAJ, a German firm, SWNR, a French firm and RPH, an agent of an Italian firm. These three firms each represent around 10 % of the total market. SKF and its competitors are similar in terms of quality and supply of products. However, the company's competitors tend to market their products at lower prices but unlike SKF, offer no technical support. The competitors who are able to offer lower prices are those who either import bearings through Uganda and Rwanda and face lower charges and taxes as a result, or those who import these products under false product classifications that have lower duties. Normally, an importer of bearings has to pay 32% tax and 17 % import charges on the price of imported goods.

### *Some Critical Problems Under the Establishment Process*

The most critical problem is the bureaucratic constraints related to import license granting procedures. An importing firm has to apply for a license from the Kenyan Ministry of Commerce and Industry which in turn controls the whole market. The government regulations rule, without any specified criteria, that no one company should have more than 15 % of the bearings market share. Due to these limitations and processing delays, firms find it difficult to balance product demand with supply. In other words, despite an acute need on part of a customer and the availability of the product, the company may not be able to make a timely delivery if the license is pending and remains so for an unspecified period of time. Furthermore, a high turnover of personnel in the Ministry of Commerce and Industry also creates bottlenecks in suppliers, as there is usually a lead-time before these personnel become familiar and can deal competently with the licensing regulations. These uncertainties result in a firm's ability to plan ahead and/or to make sound investment decisions on a long-term basis. SKF in Kenya, for example, operates with only a three to four months planning horizon.

The Management of the Critical Problems: In view of the above, it is not surprising to learn that SKF management places great importance on cultivating good personal relationships with the Kenyan authorities with a view to easing the bureaucratic

difficulties. Management acknowledges and is very conscious of the fact that success of its operations in Kenya are dependent upon these personal contacts which must be maintained as the licensing granting process is a continuous one. No sooner has one license been granted, it is time to pursue the next one. The company engages in regular discussions with the Kenyan Ministry of Commerce and Industry personnel and to a great extent is quite effective in its efforts to develop and nurture their mutual relationships.

### ***Resources Availability in the Local Market***

#### ***Products***

SKF imports and distributes a wide range of ball bearings. 90 % of the supplies are components for other machines. They are manufactured in Europe, and are of high quality and technically advanced. They sell at higher prices in Kenya than in Europe due to the imposition of import duties and taxes.

#### ***Human Resources***

SKF has 20 employees. It faces an acute shortage of local skilled engineers and, in the main, has to train the locals to overcome these shortages. It also trains employees of some of its main customers with a view to upgrading their skills and competence level. The SKF management claims that as part of its successful establishment in Kenya, the company has acquired and/or trains reliable, punctual, skilled and competent employees.

#### ***Financial Resources***

SKF is not eligible to take out loans from the Kenyan financial institutions except under exceptional circumstances. Even if the company was successful in its bid to secure a loan, the limit could not exceed 240, 000 Kenyan Shillings. It has no choice but to rely totally on its head office for financial support.

#### ***The Focal Relationships***

The most important SKF customer groups in Kenya include the sugar industry representing around 30% of the company's total sales followed by the cement industry and the paper industry. There are six major sugar mills in Kenya, all customers of SKF. Attention to this focal customer relationship was not evident until 1983 when a SKF



salesman discovered that the ball bearings being used by these sugar mills, needed to be replaced. In discussion with the purchasing director, new product specification, quality, technical support, prices, and service level were specified and successfully incorporated.

There are two major cement factories operating in Nairobi and Mombassa. Both were importing ball bearings from other suppliers until the new SKF managing director took over in 1982. Cement is a material, which can destroy bearings very fast. The new director visited these factories and presented them with rust free products, inventory holding and technical help. These personal contacts proved so successful that since 1982, the cement industry has bought all of its products from SKF.

The paper industry has a greater need for technical services compared to other industries due to high temperature and steam generated during the processing stage. As a result, ball bearings are worn out at a faster rate. In Kenya there are three big paper producers and SKF has established relationships with them all through personal contacts. The process of developing relationships with these focal customer groups is broadly similar to those with the Sugar and Cement Industries. The coffee and tea industries also count among SKF's important customers, as do some other small industries. SKF's policy is to sell products in large volumes, especially to its smaller customers, as the delivery cost of small quantities tends to be too high.

Resource Exchanges: The ball bearings represent the main resource exchanged between SKF and its customers. SKF also offers services, technical support and sales discounts. The sales discounts can be between 20-27 %. The sugar industry receives the largest, discounts, as it tends to be the biggest bulk buyer. All customers receive between 40 to 60 days credit with the focal customer receiving credit for up to 120 days.

### ***Adaptations***

Technical Adaptations: Product adaptations are relatively limited as much of the manufacturing takes place in Europe. Besides, such adaptations would be very expensive for SKF to undertake. However, there does exist some flexibility if customer specifications merit such modifications. During the early stage, SKF personnel lacked the necessary technical and marketing skills to deal with their customers in a competent



manner. However, the company has since invested in training and the technical support on offer has improved dramatically over the years. Some important aspects of this training includes, for example, product assembly, product application, and product demonstration and repairs of the ball bearings.

### ***Financial Adaptations***

With a view to nurturing long-term relationships, SKF has paid particular attention to developing a wide range of financial packages to suit its customers' needs. These packages include, for example, flexible payment plans, credit terms and discounts.

### ***Knowledge Exchanges***

One of SKF's strongest attributes is its technically competent personnel who have the responsibility to visit customers, make product demonstrations and conduct management training programs. A technical expert is always at hand to take care of any customer queries such as defect identification. As a result, there is an extensive and continuous information exchange between SKF and its customers. Given that SKF has been operating in Kenya for over three decades, there is an atmosphere of mutual understanding between the company and its customers regarding doing business and relationships.

### ***Social Adaptations***

One of the biggest factors hampering social relations has been the frequent incidence of late payments on part of some of SKFs customers. However, following the appointment of the new managing director and his philosophy of regular personal contact with customers, has helped to improve this situation. Over the years, these relationships have matured and the degree of trust has improved between the company and its customers facilitating the process of social adaptations. This process has been further supported by SKF's open policy of continuous information exchanges with the customers.

### ***Delivery and Logistical Adaptations***

The product supply is dependent upon the nature of the customers' requirements and SKFs capacity to fulfill these demands, which in turn depends on stock availability.

### ***The Supporting Relationships***

SKF has developed supporting relationships with other actors. One such relationship is with a transport company, which ensures that a fast overnight delivery of goods is ensured. The company has also cultivated strong relationship with the Kenyan Ministry of Commerce as discussed above, as well as financial institutions such as the Kenyan Commercial Bank and the Kenyan Standard Bank.

### ***The General Environment***

The Kenyan economy is desperately short of skilled and educated manpower, which in turn restricts SKF's ability to hire qualified personnel. Another macro variable affecting the company's establishment process is import restrictions. The establishment process is further exacerbated due to relative unavailability of foreign exchange, which also impacts the acquisition of import licenses. There also exist export restrictions to other African countries, for which a special permit must be obtained.

## **CASES COMPARISON AND ANALYSIS OF THE EMPIRICAL DATA**

The critical factor affecting the establishment process in the initial stage for both Alfa-Laval and SKF, was the lack of existing industrial network relationships, the resources to develop them and, once developed, to keep them functioning.

The present networks, which operate in the case of both companies remain relatively under developed and semi-structured. The major concern for the two firms is not necessarily the marketing side of its operations but ensuring the basic supply and the prompt delivery of their products across the country. As a result, an inventory has been built in Nairobi.

A common factor affecting the establishment process of the two firms is the level of product pricing since this has a direct impact on their competitiveness. Another is the lack of sufficient finances, which can be critical especially when there are stock shortages due to delays in securing import licenses. Admittedly, the Kenyan government has attempted to put into place rules and regulations to simplify these bureaucratic bottlenecks. The government has been pushed into these reforms to a degree since "to do nothing policy" would encourage further illegal imports and/or the submission of

false product classification to Kenyan authorities by firms in their attempts to avoid import duties and taxes, and to further develop their competitive power.

With a view to obtaining a competitive advantage and a direct result of the lack of local finance, firms are increasingly meeting this shortfall through arrangements with financial institutions within their home countries. However, such measures do not necessarily secure a long-term sustainable competitive advantage for these firms. Sustainable competitive advantage can only be obtained if a firm develops a long-term competitive strategy, which incorporates other elements in addition to financing as part of the total package. The nature of this package may differ in different time periods depending on the prevalent macro environmental factor at play. Other inhibiting factors affecting the process of establishment include the size and structure of the market, government policies, shortage of import licenses and illegal imports. Such activities negatively impact the competitiveness and market share of both Alfa-Laval and SKF. Furthermore, developing a well-structured network of industrial relationships is time consuming if not impossible in the absence of industrial resources and under developed infrastructure in developing countries

Both SKF and Alfa Laval have taken measures to strengthen their market positions and to increase their market shares. However, despite their determined efforts, neither of the companies has succeeded in achieving a stable and secure establishment. This is partly because the measures taken so far can be described, at best, as incomprehensive, incomplete and short-term. These measures have focussed narrowly on the total cost concept, quality, after sales services and the continuous supply of spare parts, while enabling the two Swedish firms to gain the confidence of some firms, have alienated firms which are more price sensitive. In addition, the flexibility of the financial packages on offer to the customers is relatively limited. This is partly because the head offices of the two Swedish firms and SIDA are reluctant to offer more relaxed credit terms given the late payment history of the Kenyan firms. Unstable economic environment, currency inconvertibility, transfer of money from the local market, continuous currency devaluation, lack of risk management and bank guarantees are additional contributory factors impacting the decision not to finance sales in the Kenyan market. Surprisingly, this lack of cooperation exists despite the fact that the involvement of the Kenyan government, for example, would help the country to deal with shortages

in hard currency and product supply as well as illegal imports. While, the establishment process of SKF and Alfa-Laval would be facilitated through, for example, a timely acquisitions of import licenses which in turn would help these companies to maintain and increase their respective market shares. A model based on multilateral cooperation and trust among the various actors mentioned above would help the international firms in Kenya to secure supplies, develop a competitive edge through favorable financing and the reduction in illegal imports, corruption and import delays.

In view of the above evidence, it is recommended that a focal relationship as well as a network of the first degree should be created in the local market. It should be noted that this network of the first degree does not refer to an industrial network, but encompasses financial, social, governmental, and economic networks, a combination of which would enable the international firms to overcome the above-mentioned barriers. Such a network would strengthen the market position of the Swedish firms and would help them to develop a sustainable competitive advantage. Such an advantage would, in turn, enable these firms to have the option to produce locally and/or within the wider geographical region. A commitment of Swedish firms to local production would also gain favor with the Kenyan government as it would accrue benefits such as saving and earning hard currency through exports, create employment, and generate tax revenues. Once these networks have been secured, a local industrial network could be created as part of the second level measures.

## **CONCLUSION**

There is a need for the international firms entering Kenya to develop flexible financial packages for their customers as a means of increasing their market share and to develop a dominant position in the local market. It is worth emphasizing that such a system cannot be developed by the international firms alone and without the support from the host government. In addition, there is a need to create focal relationships and networks of the first degree. These relationships, in turn, would help the international firms to secure a dominant position in the local market/s. Once these relationships become sustainable and economically viable, the international firms could then build local production capacities through the creation of industrial networks. Such local production would also help the international firms to export regionally and thus widen

their customer base in neighboring countries. The international firms need to be aware of the fact that the onus would be primarily on them to build the relevant networks through patiently cultivating relationships with the government, local customers and financial institutions. In cases where the host governments are not necessarily cooperative, the international firms may have no choice but to build local partnerships on a bilateral basis which may be in the form of co-ownership.

There is dearth of information in this field and future research should aim to undertake comparative studies of the establishment process of the different branches and/or lines of business for a particular MNC in addition to the studies of individual MNCs operating in different countries. These studies should include East European and South East Asian markets. Given that each country, market, MNC, and region comprises unique features, such studies would help to discover the various factors affecting the establishment process and in doing so would help to build generic models.

## **FOOTNOTES**

1. It should be noted that Awuah (1994) studying MNCs in Ghana found that operating in both the industrialized and developing countries was more or less the same.
2. Studies that focus on industrialized countries are (Lundgren & Hedlund, 1983; Elsässer, 1984; Hedlund & Kvernland, 1984; Lee, 1991; Nazeem & Bolte, 1991; Axelsson & Johanson, 1992; Kinch, 1992; Blankenburg, 1997, etc.).
3. For further discussion on different approaches see, for example, Blankenburg (1997), Lee (1991), Nazeem and Bolte (1992).
4. In discussing the concept of market entry, Bradley relates his argument to the Works of Yip (1982) 'Gateways to Entry', Harvard Business Review, September-October, 85-92.
5. It is worth noting that researchers in different disciplines have defined and applied the network terminology within different contexts (e.g., Blau, 1968; Cook & Emerson, 1978, 1984; Burt, 1982; Granovetter, 1982). Some have used the network approach to discuss social relations and social networks, considering the various actors only as social actors having social relationships. While, others have used it to describe the exchange of various resources, describing this exchange process to be an integral part of the social exchange process. Yet, another viewpoint is to consider social relations as starting points and contends that social relations develop into social bonds, which eventually facilitate various forms of business exchanges.
6. I see also footnote 3.
7. This new product was called 'huggverktyg', a utting instrument.

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